

**Department of Defense**  
**Military Retirement Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of March 31, 2007 and 2006**

	<u>2007 Consolidated</u>	<u>2006 Consolidated</u>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 26,081,898.35	\$ 17,206,644.14
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	226,022,200,137.71	215,601,292,150.82
3. Accounts Receivable (Note 5)	0.00	0.00
4. Other Assets (Note 6)	0.00	0.00
5. Total Intragovernmental Assets	<u>\$ 226,048,282,036.06</u>	<u>\$ 215,618,498,794.96</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	23,332,148.30	26,139,873.71
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	0.00	0.00
F. General Property, Plant and Equipment, Net (Note 10)	0.00	0.00
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
<b>2. TOTAL ASSETS</b>	<u><u>\$ 226,071,614,184.36</u></u>	<u><u>\$ 215,644,638,668.67</u></u>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 0.00	\$ 0.00
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	727,315.82	1,095,095.69
4. Total Intragovernmental Liabilities	<u>\$ 727,315.82</u>	<u>\$ 1,095,095.69</u>
B. Accounts Payable (Note 12)	\$ 0.00	\$ 0.00
C. Military Retirement and Other Federal Employment Benefits (Note 17)	967,218,575,125.50	892,111,600,551.72
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	196,746.69	3,427,939,521.35
<b>4. TOTAL LIABILITIES</b>	<u><u>\$ 967,219,499,188.01</u></u>	<u><u>\$ 895,540,635,168.76</u></u>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	(741,147,885,003.65)	(679,895,996,500.09)
D. Cumulative Results of Operations - Other Funds	0.00	0.00
<b>6. TOTAL NET POSITION</b>	<u><u>\$ (741,147,885,003.65)</u></u>	<u><u>\$ (679,895,996,500.09)</u></u>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 226,071,614,184.36</u></u>	<u><u>\$ 215,644,638,668.67</u></u>

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
<b>1. Program Costs</b>		
A. Gross Costs	\$ 21,557,988,415.37	\$ 20,376,540,120.61
B. (Less: Earned Revenue)	(39,071,419,080.42)	(38,057,818,442.63)
C. Net Program Costs	<u>\$ (17,513,430,665.05)</u>	<u>\$ (17,681,278,322.02)</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ (17,513,430,665.05)</u></u>	<u><u>\$ (17,681,278,322.02)</u></u>

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended March 31, 2007 and 2006

	2007 Earmarked Funds	2007 All Other Funds
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ (758,661,315,668.70)	\$ 0.00
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	(758,661,315,668.70)	0.00
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	0.00
<b>7. Net Cost of Operations (+/-)</b>	(17,513,430,665.05)	0.00
<b>8. Net Change</b>	17,513,430,665.05	0.00
<b>9. Cumulative Results of Operations</b>	(741,147,885,003.65)	0.00
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	0.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	0.00
<b>16. Net Position</b>	(741,147,885,003.65)	0.00

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended March 31, 2007 and 2006

	2007 Eliminations	2007 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ (758,661,315,668.70)
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	0.00	(758,661,315,668.70)
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	0.00
<b>7. Net Cost of Operations (+/-)</b>	0.00	(17,513,430,665.05)
<b>8. Net Change</b>	0.00	17,513,430,665.05
<b>9. Cumulative Results of Operations</b>	0.00	(741,147,885,003.65)
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	0.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	0.00
<b>16. Net Position</b>	0.00	(741,147,885,003.65)

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended March 31, 2007 and 2006

	2006 Earmarked Funds	2006 All Other Funds
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ (697,577,274,822.11)	\$ 0.00
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	(697,577,274,822.11)	0.00
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	0.00
<b>7. Net Cost of Operations (+/-)</b>	(17,681,278,322.02)	0.00
<b>8. Net Change</b>	17,681,278,322.02	0.00
<b>9. Cumulative Results of Operations</b>	(679,895,996,500.09)	0.00
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	0.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	0.00
<b>16. Net Position</b>	(679,895,996,500.09)	0.00

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended March 31, 2007 and 2006

	2006 Eliminations	2006 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ (697,577,274,822.11)
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	0.00	(697,577,274,822.11)
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	0.00
<b>7. Net Cost of Operations (+/-)</b>	0.00	(17,681,278,322.02)
<b>8. Net Change</b>	0.00	17,681,278,322.02
<b>9. Cumulative Results of Operations</b>	0.00	(679,895,996,500.09)
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	0.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	0.00
<b>16. Net Position</b>	0.00	(679,895,996,500.09)

Department of Defense  
 Military Retirement Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended March 31, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	50,818,000,000.00	49,311,000,000.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3. Anticipated for rest of year, without advances	0.00	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>50,818,000,000.00</u>	<u>49,311,000,000.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	(29,259,517,774.72)	(28,935,095,895.13)
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<u><u>\$ 21,558,482,225.28</u></u>	<u><u>\$ 20,375,904,104.87</u></u>

**Department of Defense**  
**Military Retirement Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended March 31, 2007 and 2006**

	<b>2007 Combined</b>	<b>2006 Combined</b>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 21,558,482,225.28	\$ 20,375,904,104.87
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>21,558,482,225.28</u>	<u>20,375,904,104.87</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
<b>11. Total status of budgetary resources</b>	<u><u>\$ 21,558,482,225.28</u></u>	<u><u>\$ 20,375,904,104.87</u></u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,409,801,499.00	3,321,072,308.37
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	3,409,801,499.00	3,321,072,308.37
13. Obligations incurred net (+/-)	<u>\$ 21,558,482,225.28</u>	<u>\$ 20,375,904,104.87</u>
14. Less: Gross outlays	(21,445,985,210.84)	(20,269,271,891.16)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	3,522,298,513.44	3,427,704,522.08
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	0.00	0.00
18.C. Total, unpaid obligated balance, net, end of period	<u>3,522,298,513.44</u>	<u>3,427,704,522.08</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	21,445,985,210.84	20,269,271,891.16
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	(31,942,798,247.68)	(25,524,000,000.00)
<b>19.D. Net Outlays</b>	<u><u>\$ (10,496,813,036.84)</u></u>	<u><u>\$ (5,254,728,108.84)</u></u>



Department of Defense  
 Military Retirement Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended March 31, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>0.00</u>	<u>0.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

**Department of Defense**  
**Military Retirement Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended March 31, 2007 and 2006**

	<b>2007 Combined</b>	<b>2006 Combined</b>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>0.00</u>	<u>0.00</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
<b>11. Total Status of Budgetary Resources</b>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	0.00	0.00
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	0.00	0.00
13. Obligations incurred net (+/-)	<u>\$ 0.00</u>	<u>\$ 0.00</u>
14. Less: Gross outlays	0.00	0.00
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>0.00</u>	<u>0.00</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	0.00	0.00
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>0.00</u>	<u>0.00</u>
<b>19.D. Net Outlays</b>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

**Department of Defense**  
**Military Retirement Fund**  
**CONSOLIDATED STATEMENT OF FINANCING**  
**For the periods ended March 31, 2007 and 2006**

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
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<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 21,558,482,225.28	\$ 20,375,904,104.87
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	21,558,482,225.28	20,375,904,104.87
4. Less: Offsetting receipts (-)	(31,942,798,247.68)	(25,524,000,000.00)
5. Net obligations	<hr/> (10,384,316,022.40)	<hr/> (5,148,095,895.13)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 0.00	<hr/> 0.00
<b>11. Total resources used to finance activities</b>	<hr/> \$ (10,384,316,022.40)	<hr/> \$ (5,148,095,895.13)
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	0.00	0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<hr/> \$ 0.00	<hr/> \$ 0.00
<b>18. Total resources used to finance the net cost of operations</b>	<hr/> \$ (10,384,316,022.40)	<hr/> \$ (5,148,095,895.13)

**Department of Defense**  
**Military Retirement Fund**  
**CONSOLIDATED STATEMENT OF FINANCING**  
**For the periods ended March 31, 2007 and 2006**

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
	<hr/>	<hr/>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 0.00	<hr/> 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0.00	0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(7,128,620,832.74)	(12,533,818,442.63)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(493,809.91)	636,015.74
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> (7,129,114,642.65)	<hr/> (12,533,182,426.89)
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<hr/> \$ (7,129,114,642.65)	<hr/> \$ (12,533,182,426.89)
<b>30. Net Cost of Operations</b>	<hr/> <hr/> \$ (17,513,430,665.05)	<hr/> <hr/> \$ (17,681,278,322.02)

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the Military Retirement Fund (MRF), as required by the *Chief Financial Officers (CFO) Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. These financial statements have been prepared from the books and records of MRF in accordance with the *Department of Defense (DoD) Financial Management Regulation*; the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*; and, to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the MRF is responsible.

**1.B. Mission of the Reporting Entity**

The MRF provides retirement benefits after a military career, disability retirement for certain disabled retirees, and survivor benefits for eligible survivors of deceased retirees. The mission of MRF is to accumulate funds in order to finance, on an actuarially sound basis, the liabilities of Department of Defense (DoD) military retirement and survivor benefit programs.

**1.C. Appropriations and Funds**

*The Defense Authorization Act of 1984, Public Law 98-94* authorized MRF. The MRF is a pension program for the payment of pensions to retired military personnel and annuities to their survivors. The DoD Retirement Board of Actuaries determines the amount of the contributions made to MRF. The DoD contribution is a percentage of basic pay. The U.S. Treasury makes two annual contributions: an unfunded amortization payment and a normal cost amount for the concurrent receipt provisions for certain disabled retirees. Excess funds from the contributions are invested and accrued interest revenue is used to cover future liabilities of MRF.

The MRF is a non-revolving trust fund. All appropriations and funds received are considered earmarked funds. Earmarked funds are financed by specifically identified revenues; required by statute to be used for designated activities, benefits, or purposes; and remain available over time. Earmarked Funds also have a requirement to account for and report on the receipt, use, and retention of revenues and other financing sources that distinguish them from general revenues.

**1.D. Basis of Accounting**

For FY 2007, although MRF has earned an unqualified opinion on its financial statements, the financial feeder systems did not meet all of the requirements for full accrual accounting. These systems were designed and implemented before the issuance of GAAP for federal agencies and, therefore, do not collect and record financial information on the full accrual basis as required by GAAP. When necessary, MRF and

Defense Finance and Accounting Service (DFAS) have established manual controls to work around these system issues. For example, the accounting system used by MRF does not record information on a budgetary basis. Instead, the accounting office establishes the budgetary account balances from information contained in the proprietary accounts.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of MRF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, MRF's data will be based on transactions from noncompliant feeder systems, information from the proprietary accounts, and adjustments for known accruals of major items such as accounts receivable and payroll payables.

The DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the *Government Performance and Results Act*. The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, with the need to keep the financial statements from being overly voluminous.

#### **1.E. Revenues and Other Financing Sources**

Financing sources for MRF are provided primarily through monthly Military Service contributions as a percentage of base pay, an annual unfunded liability payment from the U.S. Treasury, and interest earned on investments.

#### **1.F. Recognition of Expenses**

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because MRF's financial feeder system was not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as accounts receivable and payroll expenses.

#### **1.G. Accounting for Intragovernmental Activities**

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. Seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The MRF is able to reconcile its records and no adjustments are needed.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, and U.S. Treasury's *Federal Intragovernmental Transactions Accounting Policy Guide* provide guidance for reporting and reconciling intragovernmental balances.

The MRF is able to reconcile balances pertaining to investments in federal securities. The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

#### **1.H. Transactions with Foreign Governments and International Organizations**

N/A

#### **1.I. Funds with the U.S. Treasury**

The U.S. Treasury allows MRF to be fully invested. Therefore, the fund balance with treasury (FBWT) may be zero at various times during the fiscal year including the end of a quarter or a fiscal year.

The MRF's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Services, and other Federal Governmental financial service centers process the majority of MRF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites submit reports to U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable FBWT account. Differences between MRF's recorded balance in FBWT and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

#### **1.J. Foreign Currency**

N/A

#### **1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. The MRF calculates allowances for uncollectible accounts due from the public using the General Reserve Method. Under this method, a reserve is based on the age of debts and bad debt experience.

**1.L. Direct Loans and Loan Guarantees**

N/A

**1.M. Inventories and Related Property**

N/A

**1.N. Investments**

The MRF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts (book value). Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method. The MRF's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The MRF invests in two types of nonmarketable securities. The two types are par value and market-based intragovernmental securities. The Bureau of Public Debt issues the securities. Such securities mimic marketable securities but are not traded publicly.

The MRF receives interest on the value of its nonmarketable, market-based securities from U.S. Treasury on a semi-annual basis for U.S. Treasury bonds and notes.

**1.O. General Property, Plant and Equipment**

N/A

**1.P. Advances and Prepayments**

It is DoD policy to record payments in advance of the receipt of goods and services as advances or prepayments. DoD entities report the advances as an asset on the Balance Sheet and recognize the expense and/or proper asset classification when they receive the related goods and services.

**1.Q. Leases**

N/A

**1.R. Other Assets**

N/A

**1.S. Contingencies and Other Liabilities**

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an



uncertainty as to possible gain or loss. The MRF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of accounts receivable, pending or threatened litigation, and possible claims and assessments.

The MRF reports death payment contingencies that result from DoD's responsibility to cover retiree benefits not paid by the Department of Veterans Affairs (DVA) during the month of death. Note 15 provides material disclosures.

**1.T. Accrued Leave**

N/A

**1.U. Net Position**

Net position consists of cumulative results of operations and unexpended appropriations. Cumulative results of operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets without reimbursement.

Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. The MRF does not report unexpended appropriations because the MRF unobligated balances are temporarily unavailable for obligation.

**1.V. Treaties for Use of Foreign Bases**

N/A

**1.W. Comparative Data**

Financial statement fluctuations greater than 2% of total assets on the Balance Sheet or 10% from the previous period presented, but no less than \$100 thousand, are explained within the notes to the financial statements.

**1.X. Unexpended Obligations**

The MRF recognizes annuity benefits expense and liability as earned or accrued. Therefore, there are no unexpended obligations or undelivered orders.

**1.Y. Undistributed Disbursements and Collection**

All disbursements for MRF are made by DFAS Cleveland Retired Pay Operations. DFAS Cleveland reports these disbursements to U.S. Treasury. The contributions to MRF are made by the Military Services and U.S. Treasury and are processed by the Trust Fund Accounting Division (TFAD) and reported by TFAD to U.S. Treasury. The TFAD records these transactions in the Trust Fund Accounting System (TFAS) and reconciles to U.S. Treasury each month end. All transactions reported to U.S. Treasury are included in TFAS. Therefore, MRF has no undistributed disbursements and collections.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of March 31	2007	2006
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	727,315.82	1,095,095.69
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 727,315.82	\$ 1,095,095.69
<b>3. Total Nonentity Assets</b>	\$ 727,315.82	\$ 1,095,095.69
<b>4. Total Entity Assets</b>	\$ 226,070,886,868.54	\$ 215,643,543,572.98
<b>5. Total Assets</b>	\$ 226,071,614,184.36	\$ 215,644,638,668.67

### Fluctuations

The Nonfederal Assets, Accounts Receivable decreased \$367.8 thousand (34%). The decrease is the result of a change in the allowance account, which is an offset to the receivables. In 2<sup>nd</sup> Quarter, FY 2006, the allowance for uncollectible interest, penalties, and administrative charges was 19% of the total accounts receivable. For 2<sup>nd</sup> Quarter, FY 2007, this rate is 53%. The increase in the allowance is directly related to the age of the receivables. In FY 2007, the average age of the receivables was higher than in FY 2006, therefore the risk that receivables will not be collected has increased.

### Other Information

The Military Retirement Fund (MRF) categorizes its asset accounts used to prepare the statement as either entity or non-entity assets. Entity accounts consist of resources that MRF has the authority to use or when management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that an entity holds but are not available for use in the operations of the entity.

Nonfederal Assets, Accounts Receivable, represent the amounts of interest, penalties, and administrative charges that are due to the MRF on behalf of the U.S. Treasury. Once collected, these amounts are transferred to the U.S. Treasury's receipt accounts.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
----------------	-----------------------------------

As of March 31	2007	2006
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	26,081,898.35	17,206,644.14
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 26,081,898.35	\$ 17,206,644.14
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 26,081,898.35	\$ 17,206,644.14
B. Fund Balance per Military Retirement Fund	26,081,898.35	17,206,644.14
<b>3. Reconciling Amount</b>		
	\$ 0.00	\$ 0.00

**Fluctuation**

The Fund Balance with Treasury (FBWT) increased \$8.9 million (52%). This increase is due to two factors. (1) A \$5.0 million increase of cash held back from investments in 2<sup>nd</sup> Quarter, FY 2007. The Military Retirement Fund (MRF) manager normally withholds \$20.0 million from overnight investments each month to cover disbursements made on the last day of the month. For the last month of the quarter, the amount withheld is normally \$25.0 million. In March 2006, the withheld amount was the normal \$20.0 million rather than \$25.0 million for a month ending a quarter. (2) In March 2007, a contribution of \$2.0 million from the Navy was received on the last day of the month after the Bureau of Public Debt investment cut-off time.

<b>Status of Fund Balance with Treasury</b>
---

As of March 31	2007	2006
<b>1. Unobligated Balance</b>		
A. Available	\$ (11,490,177,366.14)	\$ (11,469,668,430.97)
B. Unavailable	231,291,397,383.62	220,073,961,525.23
<b>2. Obligated Balance not yet Disbursed</b>	\$ 3,522,298,513.44	\$ 3,427,704,522.08
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (223,297,436,632.57)	\$ (212,014,790,972.20)
<b>5. Total</b>	\$ 26,081,898.35	\$ 17,206,644.14

### Fluctuation

The \$8.9 million (52%) increase in the total Status of Fund Balance with Treasury is primarily due to an increase in the amount of cash held back from investments and the timing of a contribution to the fund, as disclosed previously.

### Other Information

The Status of Fund Balance with Treasury consists of both unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future obligations. In addition, the Status of Fund Balance with Treasury includes various accounts that affect either budgetary reporting or FBWT, but not both.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. These unobligated balances, which are segregated to show the available and unavailable amounts, are related to trust fund accounts which are restricted by the public laws that established the funds. These balances become available subsequently without appropriations actions. The investment accounting staff members record the funds and invest the trust fund receipts with the U.S. Treasury, Bureau of Public Debt. These investments are redeemed as funds are needed.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. The MRF balance represents benefits payable on April 1, 2007.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non FBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority and investment accounts. This category reduces the Status of Fund Balance with Treasury. The MRF balance represents investment accounts.

**Disclosures Related to Suspense/Budget Clearing Accounts**

As of March 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 - 2007
<b>Account</b>				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>

**Disclosures Related to Problem Disbursements and In-Transit Disbursements**

As of March 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
<b>2. Total In-transit Disbursements, Net</b>	\$ 0.00	\$ 0.00	\$ 0.00	0.00



**Note 4. Investments and Related Interest**

As of March 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
<b>A. Nonmarketable, Market-Based</b>					
1. Military Retirement Fund	\$ 229,080,522,852.62	Effective Interest	\$ (5,783,086,220.05)	\$ 223,297,436,632.57	\$ 218,770,332,753.23
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	229,080,522,852.62		(5,783,086,220.05)	223,297,436,632.57	218,770,332,753.23
B. Accrued Interest	2,724,763,505.14			2,724,763,505.14	2,724,763,505.14
C. Total Intragovernmental Securities	\$ 231,805,286,357.76		\$ (5,783,086,220.05)	\$ 226,022,200,137.71	\$ 221,495,096,258.37
<b>2. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of March 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
<b>A. Nonmarketable, Market-Based</b>					
1. Military Retirement Fund	\$ 225,952,891,547.57	Effective Interest	\$ (13,938,100,575.37)	\$ 212,014,790,972.20	\$ 207,266,310,704.56
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	225,952,891,547.57		(13,938,100,575.37)	212,014,790,972.20	207,266,310,704.56
B. Accrued Interest	3,586,501,178.62			3,586,501,178.62	3,586,501,178.62
C. Total Intragovernmental Securities	\$ 229,539,392,726.19		\$ (13,938,100,575.37)	\$ 215,601,292,150.82	\$ 210,852,811,883.18
<b>4. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

## Fluctuations

Investments, Net, increased \$10.4 billion (5%). This increase is the result of investing \$22.5 billion of the FY 2007 amortization payment for the unfunded liability, which was offset by \$9.0 billion in maturities throughout the year. These maturities were used to cover the Fund's current obligations.

## Other Information

The following table displays the cost of the U.S. Treasury Securities.

	<b>FY 2007 COST</b> <b><u>(in thousands)</u></b>	<b>FY 2006 COST</b> <b><u>(in thousands)</u></b>
Bills	\$2,000,000.0	\$2,940,421.0
Bonds	27,958,981.0	64,658,516.0
Notes	56,981,370.0	52,049,272.0
TIPS	132,958,449.0	93,825,811.0
Overnights	<u>9,181,723.0</u>	<u>12,478,872.0</u>
Total Cost	\$229,080,523.0	\$225,952,892.0

The Military Retirement Fund (MRF) purchases and redeems nonmarketable, market-based securities. The Department of Defense (DoD) Investment Board determines the strategy for the type of securities purchased by the MRF. This strategy was not changed at the September 2006 board meeting.

The MRF securities include U.S. Treasury bills, notes, bonds, inflation-protected securities, and overnight certificates. The U.S. Treasury bills are short-term securities with maturities of 1 year or less and are purchased at a discount. The U.S. Treasury notes have maturities of at least 1 year, but not more than 10 years, and are purchased at either a discount or premium. The U.S. Treasury bonds are long-term securities with maturity terms of 10 years or more and are purchased at either a discount or premium. The U.S. Treasury Inflation-Protected Securities (TIPS) provide protection against inflation. The TIPS principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the U.S. Treasury pays the adjusted principal or original principal, whichever is greater. The above cost figures include the TIPS inflation compensation adjustment of \$12.7 billion for FY 2007 and \$7.3 billion for FY 2006. Overnight securities are short-term securities purchased at face value that mature the next business day and earn interest at the daily Federal Reserve repurchase agreement rate.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury issues securities to the MRF as evidence of its receipts. Treasury securities are an asset to MRF and a liability to the U.S. Treasury. Because MRF and the U.S. Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a

liability in the Federal Government wide financial statements. The U.S. Treasury securities provide MRF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When MRF requires redemption of these securities to make expenditures, the Federal Government finances those expenditures by raising taxes or other receipts, by borrowing from the public, repaying less debt, or by curtailing other expenditures. This is the same way that the Federal Government finances all other expenditures.

**Note 5. Accounts Receivable**

As of March 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 0.00	N/A	\$ 0.00	\$ 0.00
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 29,503,013.23	\$ (6,170,864.93)	\$ 23,332,148.30	\$ 26,139,873.71
<b>3. Total Accounts Receivable</b>	\$ 29,503,013.23	\$ (6,170,864.93)	\$ 23,332,148.30	\$ 26,139,873.71

**Fluctuations**

Nonfederal Receivables (From the Public) decreased by a total of \$2.8 million (11%). In 3<sup>rd</sup> Quarter, FY 2006, a \$1.8 million overstatement of accounts receivable was discovered. The overstatement was the net result of two issues, and both were corrected in 3<sup>rd</sup> Quarter FY 2006. (1) A system programming code did not add administrative fees and interest and did not subtract collections. The date the systemic error occurred is unknown. (2) Temporarily suspended debts were not being reported as receivables. The remaining \$1.0 million is the result of ongoing collection actions.

## Aged Accounts Receivable

As of March 31	2007		4th Quarter 2006	
CATEGORY	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>Nondelinquent</b>				
Current	\$ 0.00	\$ 26,000,058.23	\$ 0.00	\$ 25,091,175.00
Noncurrent	0.00	0.00	0.00	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 0.00	\$ 2,070.00	\$ 0.00	\$ 3,317.00
31 to 60 days	0.00	3,790.00	0.00	2,609.00
61 to 90 days	0.00	649,946.00	0.00	1,055,431.00
91 to 180 days	0.00	356,269.00	0.00	208,407.00
181 days to 1 year	0.00	570,616.00	0.00	743,185.00
Greater than 1 year and less than or equal to 2 years	0.00	863,558.00	0.00	697,802.00
Greater than 2 years and less than or equal to 6 years	0.00	737,835.00	0.00	720,661.00
Greater than 6 years and less than or equal to 10 years	0.00	141,041.00	0.00	212,141.00
Greater than 10 years	0.00	177,830.00	0.00	159,547.00
<b>Subtotal</b>	<b>\$ 0.00</b>	<b>\$ 29,503,013.23</b>	<b>\$ 0.00</b>	<b>\$ 28,894,275.00</b>
Less Supported Undistributed Collections	0.00	0.00	0.00	0.00
Less Eliminations	0.00	0.00	0.00	0.00
Less Other	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 29,503,013.23</b>	<b>\$ 0.00</b>	<b>\$ 28,894,275.00</b>

The table above displays the non-delinquent and delinquent amounts that retirees and survivors owe to the Military Retirement Fund (MRF) because of improper payments. The MRF delinquent receivables over 30 days as of March 31, 2007, are maintained in the Defense Debt Management System (DDMS) at Defense Finance and Accounting Service, Denver.

The last two columns of the accounts receivable aging schedule represent the 4<sup>th</sup> Quarter, FY 2006, ending balances, rather than the ending balances as of 2nd Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will neither agree with the prior year balance on the Balance Sheet nor agree with the prior year balance in the first schedule in this note. The explanation of the aging of receivables is in the paragraphs below.

DDMS's collection procedures involve the following actions: when the debt is 2 to 62 days old, demand letters are generated; on the 92<sup>nd</sup> day, the debt is referred to the U.S. Treasury Offset Program and DDMS generates electronic files to refer these debts to U.S. Treasury in accordance with the *Debt Collection Improvement Act of 1996*. When the debt reaches 122 to 681 days, the debt is referred to private collection agencies prior

to the debt being written off. After 682 days the debt is reported as currently not collectible.

In compliance with the *Debt Collection Improvement Act of 1996*, all individual out-of-service debts referred to the DFAS-Project Officer (PO) for collection assistance are established in DDMS and processed through all required debt collection actions and are affected by the contributing factors discussed below.

Contributing factors to the changes in aging:

In FY 2007, MRF has new receivables of \$27.4 million, collections of \$21.3 million, reclassified receivables of \$1.8 million, and write-offs of \$3.7 million. However, the collections, reclassified receivables, and write-off transactions are not categorized by age. Due to the nature of the fund, many of the write-offs are for current receivables.

To prevent financial hardships, the Department of Defense policy is to allow repayments of debt on an installment plan. As long as the installment payments are being made timely, the debt is considered current. However, if an installment payment is not made, the debt is aged. If the installment payments resume, the debt is recategorized as current. Debts can move from current to greater than 10 years or vice versa.

The total delinquent receivables greater than 180 days is \$2.5 million (9% of the total receivables).

Aged accounts receivable 181 days to 1 year: Of the balance in 180 days or less as of 4<sup>th</sup> Quarter, FY 2006, 55% were collected. Of the 2<sup>nd</sup> Quarter, FY 2007 balance of \$570.6 thousand, \$551.7 thousand is not available for collection (\$328.3 thousand is in formal appeals, \$223.4 thousand at U.S. Treasury). The remaining \$18.9 thousand is held by DDMS and subject to procedures outlined above.

Aged accounts receivable between 1 and 2 years: Of the \$863.6 thousand balance in this category as of 2<sup>nd</sup> Quarter, FY 2007, \$861.6 thousand is not available for collection (\$267.6 thousand in formal appeals, \$594 thousand at U.S. Treasury). The remaining \$2.0 thousand is held by DDMS and subject to procedures outlined above.

Aged accounts receivable between 2 and 6 years: Of the \$737.8 thousand balance in this category as of 2<sup>nd</sup> Quarter, FY 2007, \$721.5 thousand is not available for collection (\$26.0 thousand in bankruptcy, \$249.2 thousand in formal appeals, \$297.4 thousand at the U.S. Treasury, \$148.9 at the Department of Justice). The remaining \$16.3 thousand is held by DDMS and subject to procedures outlined above.

Aged accounts received between 6 and 10 years: Of the \$141.0 thousand balance in this category as of 2<sup>nd</sup> Quarter, FY 2007, \$78.8 thousand is not available for collection (\$38.1 thousand in formal appeals, \$40.7 thousand at the U.S. Treasury). The remaining \$62.2 thousand is held by DDMS and subject to procedures outlined above.

Aged accounts received greater than 10 years: Of the \$177.8 thousand balance in this category as of 2<sup>nd</sup> Quarter, FY 2007, \$155.4 thousand is not available for collection

(\$99.2 thousand in formal appeals, \$56.2 at the Department of Justice). The remaining \$22.4 thousand is held by DDMS and subject to procedures outlined above.

<b>Note 6.</b>	<b>Other Assets</b>
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As of March 31	2007	2006
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 0.00	\$ 0.00
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
<b>3. Total Other Assets</b>	\$ 0.00	\$ 0.00

Not applicable.



<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of March 31	2007	2006
<b>1. Cash</b>	\$ 0.00	\$ 0.00
<b>2. Foreign Currency</b>	0.00	0.00
<b>3. Other Monetary Assets</b>	0.00	0.00
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 0.00	\$ 0.00

Not applicable.

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of March 31

**Direct Loan and/or Loan Guarantee Programs**

Not applicable.

## Summary of Direct Loans and Loan Guarantees

As of March 31	2007	2006
<b>Direct Loan Programs</b>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
5. Defaulted Guaranteed Loans Receivable:		
A. Foreign Military Financing Account	0.00	0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>6. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

As of March 31	2007	2006
<b>Loan Guarantee Programs</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>4. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Direct Loans Obligated

As of March 31

	2007	2006
<b>Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):</b>		
<b>1. Foreign Military Loan Liquidating Account</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
 <b>Direct Loans Obligated After FY 1991 (Present Value Method):</b>		
<b>2. Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>3. Foreign Military Financing Account</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>4. Military Debt Reduction Financing Account</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
<b>5. Total Direct Loans Receivable</b>	\$ 0.00	\$ 0.00

<b>Total Amount of Direct Loans Disbursed</b>
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As of March 31	2007	2006
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Direct Loan

As of March 31

2007	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
		2007	2006		
<b>5. Total Direct Loan Subsidy Expense:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00		0.00		
Military Debt Reduction Financing Account	0.00		0.00		
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			

## Subsidy Rate for Direct Loans by Program

As of March 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Direct Loans:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

As of March 31	2007	2006
<b>Beginning Balances, Changes and Ending Balance:</b>		
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00



<b>Defaulted Guaranteed Loans</b>
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As of March 31

	2007	2006
<b>Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):</b>		
<b>1. Foreign Military Liquidating Account</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Loan Losses	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
<b>Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):</b>		
<b>2. Military Housing Privatization Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
<b>3. Armament Retooling &amp; Manufacturing Support Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
<b>4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>		
	\$ 0.00	\$ 0.00

## Guaranteed Loans Outstanding

As of March 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Liabilities for Post FY 1991 Loan Guarantees, Present Value**

As of March 31	2007	2006
<b>Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
<b>2. Total Loan Guarantee Liability (Pre-FY 1992)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):</b>		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>5. Total Loan Guarantee Liability (Post-FY 1991)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Loan Guarantees by Program

As of March 31

2007	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
	2007	2006			
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			

## Subsidy Rates for Loan Guarantees by Program

As of March 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Loan Guarantees:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

As of March 31	2007		2006	
<b>Beginning Balance, Changes, and Ending Balance:</b>				
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>				
A. Interest Supplement Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$	0.00	\$	0.00
<b>3. Adjustments</b>				
A. Loan Guarantee Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Interest Supplements Paid		0.00		0.00
D. Foreclosed Property and Loans Acquired		0.00		0.00
E. Claim Payments to Lenders		0.00		0.00
F. Interest Accumulation on the Liability Balance		0.00		0.00
G. Other		0.00		0.00
<b>H. Total of the above Adjustments</b>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	\$	0.00	\$	0.00
<b>5. Add or Subtract Subsidy Reestimates by Component</b>				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
<b>C. Total of the above Reestimate Components</b>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00

**Administrative Expenses**

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of March 31	2007	2006
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.



## Inventory, Net

As of March 31	2007			2006		
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		Valuation Method
<b>1. Inventory Categories</b>						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	0.00	AC
<b>F. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 O = Other  
 MAC = Moving Average Cost

## Operating Materials and Supplies, Net

As of March 31	2007			2006		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
<b>D. Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 O = Other

## Stockpile Materials, Net

As of March 31	2007			2006		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	0.00	AC, LCM
<b>C. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	

**Legend for Valuation Methods:**

LAC = Latest Acquisition Cost  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 LCM = Lower of Cost or Market  
 O = Other

**Note 10. General PP&E, Net**

As of March 31	2007					2006
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	0.00	\$ 0.00	0.00	0.00
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	0.00	0.00	0.00	0.00
E. General Equipment	S/L	5 or 10	0.00	0.00	0.00	0.00
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	0.00	N/A	0.00	0.00
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line      N/A = Not Applicable

Not applicable.

**Assets Under Capital Lease**

As of March 31	2007	2006
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	<u>\$ 0.00</u>	<u>\$ 0.00</u>

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of March 31	2007	2006
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	727,315.82	1,095,095.69
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 727,315.82</b>	<b>\$ 1,095,095.69</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	732,404,879,228.44	672,037,639,026.49
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	196,746.69	234,999.27
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 732,405,075,975.13</b>	<b>\$ 672,037,874,025.76</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 732,405,803,290.95</b>	<b>\$ 672,038,969,121.45</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 234,813,695,897.06</b>	<b>\$ 223,501,666,047.31</b>
<b>5. Total Liabilities</b>	<b>\$ 967,219,499,188.01</b>	<b>\$ 895,540,635,168.76</b>

**Fluctuation**

The Total Liabilities Not Covered by Budgetary Resources line is comprised primarily of Military Retirement and Other Federal Employment Benefits. These benefits, which represent an actuarial liability, increased \$60.4 billion (9%). This increase is attributable to an increase of \$71.6 billion in the actuarial liability (for explanation please see Note 17) offset by an increase of \$10.4 billion in the value of the assets available to pay benefits to the retirees and their survivors. This increase in the assets available to cover the liabilities is due to the receipt of annual contributions.

**Other Information**

The Intragovernmental Other Liabilities line represents a custodial liability which is explained in Note 15.

The Nonfederal Other Liabilities line represents death payment contingent liabilities which are explained in Note 15.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of March 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 0.00	\$ N/A	\$ 0.00	\$ 0.00
2. Nonfederal Payables (to the Public)	0.00	0.00	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

<b>Note 13.</b>	<b>Debt</b>
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As of March 31	2007			2006	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Total Debt</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.



<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of March 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities--</b>				
<b>Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

## Environmental Disclosures

As of March 31	2007	2006
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of March 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	727,315.82	0.00	727,315.82	1,095,095.69
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 727,315.82</b>	<b>\$ 0.00</b>	<b>\$ 727,315.82</b>	<b>\$ 1,095,095.69</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,427,704,522.08
B. Advances from Others	0.00	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	196,746.69	0.00	196,746.69	234,999.27
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 196,746.69</b>	<b>\$ 0.00</b>	<b>\$ 196,746.69</b>	<b>\$ 3,427,939,521.35</b>
<b>3. Total Other Liabilities</b>	<b>\$ 924,062.51</b>	<b>\$ 0.00</b>	<b>\$ 924,062.51</b>	<b>\$ 3,429,034,617.04</b>

## **Fluctuation**

Intragovernmental Other Liabilities decreased \$367.8 thousand (34%). This is a custodial liability for the non-entity receivable disclosed in Note 2. This liability decreased because the expected amount to be collected for non-entity assets decreased.

Nonfederal Accrued Funded Payroll and Benefits decreased from \$3.4 billion to zero due to the reclassification of Pension Benefits Due and Payable to Beneficiaries from Note 15 to Other Federal Employee Benefits on Note 17. This reclassification was the result of a policy change effective 4<sup>th</sup> Quarter, FY 2006. See Note 17 for additional information.

## **Other Information**

Intragovernmental Other Liabilities represent a custodial liability. This liability is an obligation for the interest, penalties, and administrative charges which are deposited to the U.S. Treasury's receipt account upon collection.

Nonfederal Other Liabilities represent estimated death payment contingent liabilities. The Department of Defense (DoD) is responsible for paying entitlements to the exact date of death, but the Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by the DVA during the month of death.

## Capital Lease Liability

As of March 31	2007				2006	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
A. 2007	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2008	0.00	0.00	0.00	0.00	0.00	0.00
C. 2009	0.00	0.00	0.00	0.00	0.00	0.00
D. 2010	0.00	0.00	0.00	0.00	0.00	0.00
E. 2011	0.00	0.00	0.00	0.00	0.00	0.00
F. 2012	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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The Military Retirement Fund (MRF) has an estimated contingent liability of \$196.7 million that is measurable and probable and, therefore, has been recorded in the accounting records. A description of this liability is in Note 15. The MRF is not aware of any other contingent liabilities.

**Note 17. Military Retirement and Other Federal Employment Benefits**

As of March 31	2007			2006	
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
<b>1. Pension and Health Actuarial Benefits</b>					
A. Military Retirement Pensions	\$ 963,696,276,612.06		\$ (231,291,397,383.62)	\$ 732,404,879,228.44	\$ 892,111,600,551.72
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 963,696,276,612.06		\$ (231,291,397,383.62)	\$ 732,404,879,228.44	\$ 892,111,600,551.72
<b>2. Other Actuarial Benefits</b>					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>3. Other Federal Employment Benefits</b>	\$ 3,522,298,513.44		\$ (3,522,298,513.44)	\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 967,218,575,125.50		\$ (234,813,695,897.06)	\$ 732,404,879,228.44	\$ 892,111,600,551.72

Actuarial Cost Method Used: See below

Assumptions: See below

Market Value of Investments in Market-based and Marketable Securities: See below

**Fluctuations**

The Total Military Retirement and Other Federal Employment Benefits line increased \$75.1 billion (8%). The primary reason for this change is an increase of \$71.6 billion in the FY 2006 actuarial liability. This increase is: (1) the beginning-of-the-year actuarial liability increased with interest, (2) the FY 2006 normal cost liability (3) actuarial loss, and (4) assumption changes, all of which are offset by the benefit payments made in FY 2006. The estimated actuarial liability is updated only at the end of each fiscal year so there is no change from the September 30, 2006, actuarial liability. Detailed information is presented below in the Assumptions, Change in MRF Actuarial Liability, and Other Information sections.

The remaining increase of \$3.5 billion is due to a reclassification of Pension Benefits Due and Payable to Beneficiaries, from Note 15, which is now displayed on the Other Federal Employment Benefits line, beginning 4<sup>th</sup> Quarter, FY 2006. This is the result of a policy change. This liability is comprised of the amounts due and payable to military retirees and their survivors as of March 31, 2007.

## Assumptions

Actuarial Cost Method Used: Aggregate entry-age normal method. As dictated by law, the Military Retirement System is funded using the aggregate entry-age normal method. This is a method whereby projected retirement costs are spread over the projected future salaries of a cohort at the point of entry.

In FY 1984, Public Law (PL) 98-94 established the Military Retirement Fund (MRF) for the payment of annuities and pensions to retired military personnel and their survivors. The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of MRF are not ascertainable. Projected revenues into MRF come from three sources: interest earnings on MRF assets, monthly Department of Defense (DoD) contributions, and annual contributions from U.S. Treasury. The monthly DoD contributions are determined as the percentage of basic pay approved by the DoD Retirement Board of Actuaries (hereafter referred to as “the Board”).

The contribution from Treasury is paid into MRF at the beginning of each fiscal year and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. Starting October 1, 2004, PL 108-136 requires U.S. Treasury to contribute the normal cost amount for the concurrent receipt provisions under Sections 1413, 1413a, and 1414 in addition to the unfunded liability amortization payment. The Board determines U.S. Treasury’s contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The Board sets the long-term economic assumptions for each valuation. The long-term assumptions for the FY 2006 valuation were 6.0% interest, 3.0% Consumer Price Index, and 3.75% salary increase. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward from the prior year valuation results as reported in DoD Office of Actuary Valuation of the Military Retirement System. Accepted actuarial methods are used for this roll-forward process, which is applied annually. In calculating the FY 2006 roll-forward amount, the following assumptions were used:

	<u>Inflation</u>	<u>Salary</u>	<u>Interest</u>
Fiscal Year 2006	4.1 % (actual)	3.1 % (actual)	6.0 %
Fiscal Year 2007	3.0 % (estimated)	2.7 % (estimated)	6.0 %
Long-Term	3.0 %	3.75 %	6.0 %

Contributions to MRF are calculated so as to maintain the fund on an actuarially sound basis. An actuarially sound basis means that there will be sufficient funds to make all



benefit payments to eligible recipients each year, and that MRF balance is projected to eventually equal the actuarial liability, i.e., all unfunded liabilities are covered. In order to accomplish this process, normal costs are calculated to fully fund the current year projected liability for active duty members and reservists. In addition, amortization payments are calculated to fund liabilities that were present at plan inception (initial unfunded) and any emerging actuarial gains or losses.

The initial unfunded liability of the program is being amortized over a 50-year period. This initial unfunded liability is projected to be fully amortized by 2034. All subsequent gains and losses experienced by the system are amortized over a 30-year period. As mandated by Chapter 74 of Title 10, United States Code, the Board must approve methods and assumptions used to (1) compute actuarial costs and liabilities, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the President.

Market Value of Investments in Market-based and Marketable Securities: \$221.5 billion

### **Change in MRF Actuarial Liability**

The net pension expense for the change in the actuarial accrued liability from September 30, 2005, to September 30, 2006 (which, as previously mentioned, is the same as the change from 2<sup>nd</sup> Quarter, FY 2006, to 2<sup>nd</sup> Quarter, FY 2007) is developed in the table below:

<b>(\$ In Thousands)</b>	<b><u>FY 2006</u></b>	<b><u>FY 2005</u></b>
A. Beginning of Year Accrued Liability	\$892,100,000.0	\$834,600,000.0
B. Normal Cost Liability	15,500,000.0	14,900,000.0
C. Plan Amendment Liability	100,000.0	25,800,000.0
D. Assumption Change Liability	35,400,000.0	4,900,000.0
E. Benefit Outlays	(40,500,000)	(38,700,000.0)
F. Interest on Pension Liability	55,000,000.0	51,400,000.0
G. Actuarial Loss (Gain)	<u>6,100,000.0</u>	<u>(800,000.0)</u>
H. End-of-Year Accrued Liability (A+B+C+D+E+F+G)	<u>\$963,700,000.0</u>	<u>\$892,100,000.0</u>
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	<u>\$71,600,000.0</u>	<u>\$57,500,000.0</u>

### **Other Information**

Each year the accrued liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, (2) plan benefit changes, and (3) assumption changes, an increase of \$30.0 billion in the accrued liability was expected during FY 2006.

The September 30, 2006, accrued liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include a change in the interest rate (from 6.25% to 6.00%), updated Temporary Disability retiree rates, a refined set of survivor pay factors, an update to the percentage of Redux members electing the

Career Status Bonus, and a refinement in the way the savings due to the phase-in of Concurrent Receipt benefits is calculated. The net effect of these new assumptions is an increase in the September 30, 2006, accrued liability of \$35.4 billion, shown on the Change in MRF Actuarial Liability, Line D (\$32.8 billion of this increase is due to the new interest assumption).

The changes in retirement benefits for FY 2006 include an accelerated phase-in schedule of Concurrent Receipt benefits for certain retirees in the FY 2006 National Defense Authorization Act (NDAA), and a 1-year Survivor Benefit Plan (SBP) open enrollment period beginning October 1, 2005, in the FY 2005 NDAA. The accelerated phase-in schedule of Concurrent Receipt benefits for certain retirees results in an increase in the September 30, 2006, accrued liability of \$46.3 million, and the increase in the accrued liability due to SBP open season as of September 30, 2006, is \$71.5 million. The total of these benefit changes is \$100.0 million, shown on the Change in MRF Actuarial Liability, Line C.

The increase in accrued liability due to the net experience loss of \$6.1 billion, shown on the Change in MRF Actuarial Liability, Line G, reflects the new population on which the September 30, 2005, roll-forward is based, as well as other economic experience being different from that assumed.

### **Subsequent Event**

The FY 2007 NDAA (PL 109-364 or HR 5122) included a number of provisions impacting MRF including (1) revisions to the basic pay rates for the uniformed services, effective April 1, 2007; and (2) increases to the limit on base pay for retired pay computations for retirees with over 30 years creditable service, retiring after December 31, 2006, by eliminating the 75% limit on base pay.

The Office of the Actuary estimated that the effect of the benefit changes from the FY 2007 NDAA would be to increase the actuarial liability by approximately \$4.6 billion as of September 30, 2006. This increase is not reflected in the actuarial liability in the accompanying balance sheet as of March 31, 2007. The estimate of the change in actuarial liability due to benefit changes in the FY 2007 NDAA will be updated and reflected in the September 30, 2007, financial statements.

### **Treasury Contributions**

The October 1 contribution from U.S. Treasury, which is determined in accordance with methodology set by the Board of Actuaries, increased \$3.0 billion (from \$25.5 billion in FY 2006 to \$28.5 billion in FY 2007). The main reasons for the change include an expected increase of \$0.9 billion inherent in the Board's unfunded liability amortization methodology and additional increases of \$2.0 billion in the unfunded liability payment due to actuarial experience and assumption changes.

## **Military Services Contributions**

The contributions from the Military Services are the product of basic pay and Normal Cost Percentages (NCPs) determined in accordance with methodology set by the Board of Actuaries. Basic pay generally increases each year, and on January 1, 2006, there was a 3.1% across-the-board basic pay increase. On January 1, 2007 there was a 2.2% across-the-board basic pay increase. The NCPs for FY 2006 were set by the Board in its November 2004 letter, amending those set in the August 2004 public meeting: 26.5% (full-time) and 16.7% (part-time). The NCPs for FY 2007 were set by the Board in its August 2005 public meeting: 26.5% (full-time) and 17.5% (part-time).

**Note 18.****General Disclosures Related to the Statement of Net Cost****Intragovernmental Costs and Exchange Revenue**

As of March 31	2007	2006
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	21,557,988,415.37	20,376,540,120.61
<b>3. Total Costs</b>	<b>\$ 21,557,988,415.37</b>	<b>\$ 20,376,540,120.61</b>
4. Intragovernmental Earned Revenue	\$ (39,071,419,080.42)	\$ (38,057,818,442.63)
5. Public Earned Revenue	0.00	0.00
<b>6. Total Earned Revenue</b>	<b>\$ (39,071,419,080.42)</b>	<b>\$ (38,057,818,442.63)</b>
<b>7. Net Cost of Operations</b>	<b>\$ (17,513,430,665.05)</b>	<b>\$ (17,681,278,322.02)</b>

**Other Information**

The Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs that the Federal Government supports through appropriations or other means. The SNC provides gross and net cost information that can be related to the amount of output for a given program administered by a responsible reporting entity.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. For public earned revenue, the buyer of the goods or services is a nonfederal entity. Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of March 31	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Civilian Health	0.00	0.00	0.00	0.00
C. Civilian Life Insurance	0.00	0.00	0.00	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
<b>F. Total Imputed Financing</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

### Information Related to the Statement of Changes in Net Position

There was a difference of \$50.8 billion between Appropriations Received on the Statement of Changes in Net Position (\$0) and Appropriations Received on the Statement of Budgetary Resources (\$50.8 billion). This difference is due to additional resources included in the Appropriations Received line on the Statement of Budgetary Resources. See Note 20 for additional details.

The eliminations column on the Statement of Changes in Net Position will reflect zero dollars. Statement of Federal Financial Accounting Standards Number 27, *Identifying and Reporting Earmarked Funds*, effective for reporting years after FY 2005, required that the Department of Defense (DoD) modify the Statement of Changes in Net Position. The Federal Accounting Standards Advisory Board determined that restatement of prior comparative balances would not be allowed. To meet the requirement, additional columns were added to separately display gross amounts for earmarked funds and all other (non earmarked) funds. In the Statement of Changes in Net Position, all offsetting balances (i.e., transfers in and out, revenues and expenses) for intraDoD activity between earmarked and other (non earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of March 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 0.00	\$ 0.00
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

**Apportionment Categories**

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements* specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under category A obligations, which relate to a specific period of time; category B obligations, which relate to a specific project or program; and exempt from apportionment obligations, which relate to funds that are not apportioned. The Military Retirement Fund (MRF) reported \$21.6 billion in exempt from apportionment obligations and no category A or category B obligations.

**Permanent Indefinite Appropriation**

Public Law 98-94, The Defense Authorization Act of 1984, established MRF to accumulate funds to finance, on an actuarially sound basis, the liabilities of the Department of Defense military retirement and survivor benefit programs. This statute provides a permanent indefinite appropriation with which to operate. These funds are only available to pay pensions to retired military personnel and annuities to their survivors. Amounts that are not needed to pay the current costs of MRF may be invested in nonmarketable, market-based securities purchased through U.S. Treasury.

**Use of Unobligated Balances of Budget Authority**

The MRF's unobligated balances of budget authority represent the portion of trust fund receipts collected in the current fiscal year (1) that exceed the amount needed to pay benefits or other valid obligations and (2) that exceed the receipts temporarily precluded from obligation by law. The receipts, however, are assets of the MRF and are available for obligation as needed in the future.

**Intraentity Transactions**

Intraentity transactions have not been eliminated because the statements are presented as combined and combining.

## **Differences in Appropriations Received**

There was a difference of \$50.8 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) (\$0) and Appropriations Received on the Statement of Budgetary Resources (SBR) (\$50.8 billion). Non-revolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on the SCNP. The MRF current receipts total \$39.3 billion and the remaining \$11.5 billion represents anticipated amounts. The anticipated amount is the difference between the President's budget, which includes projected interest revenue, and actual receipts including actual interest revenue. The MRF uses the President's budget until such time as receipts exceed the budget amount or the end of the fiscal year, whichever occurs first.

<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
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**Information Related to the Statement of Financing**

The following Statement of Financing lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated: obligations incurred; obligations net of offsetting collections and recoveries; less: offsetting receipts; net obligations; and undelivered orders.

Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods report unfunded expenses that were incurred during FY 2007. The cumulative total of unfunded expenses from all fiscal years is reported as “Liabilities Not Covered by Budgetary Resources” in Note 11.

**Other Information**

Components not Requiring or Generating Resources – Other represents the change in accounts receivable between the 1<sup>st</sup> Quarter, FY 2006, and 2<sup>nd</sup> Quarter, FY 2006, and between 1<sup>st</sup> Quarter, FY 2007, and 2<sup>nd</sup> Quarter, FY 2007. These amounts represent refunds receivables for erroneous payments to military retirees and their survivors. The refunds receivable are recorded as an offset to expenses.



<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
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Not applicable.

Military Retirement Fund

**Note 23. Earmarked Funds**

**BALANCE SHEET**  
As of March 31, 2007

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>ASSETS</b>					
Fund balance with Treasury	\$ 26,081,898.35	\$ 0.00	\$ 0.00	\$ 0.00	\$ 26,081,898.35
	226,022,200,137.7				
Investments	1	0.00	0.00	0.00	226,022,200,137.71
Accounts and Interest Receivable	23,332,148.30	0.00	0.00	0.00	23,332,148.30
Other Assets	0.00	0.00	0.00	0.00	0.00
	226,071,614,184.3				
Total Assets	\$ 6	\$ 0.00	\$ 0.00	\$ 0.00	\$ 226,071,614,184.36

**LIABILITIES and NET POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 967,218,575,125.50	\$ 0.00	\$ 0.00	\$ 0.00	\$ 967,218,575,125.50
Other Liabilities	924,062.51	0.00	0.00	0.00	924,062.51
	967,219,499,188.0				
Total Liabilities	\$ 1	\$ 0.00	\$ 0.00	\$ 0.00	\$ 967,219,499,188.01
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	(741,147,885,003.65)	0.00	0.00	0.00	(741,147,885,003.65)
	5)				)
Total Liabilities and Net Position	\$ 226,071,614,184.36	\$ 0.00	\$ 0.00	\$ 0.00	\$ 226,071,614,184.36

**STATEMENT OF NET COST**

For the period ended March 31, 2007

Program Costs	\$ 21,557,988,415.37	\$ 0.00	\$ 0.00	\$ 0.00	\$ 21,557,988,415.37
Less Earned Revenue	(39,071,419,080.42)	0.00	0.00	0.00	(39,071,419,080.42)
	(17,513,430,665.05)				
Net Program Costs	\$ )	\$ 0.00	\$ 0.00	\$ 0.00	\$ (17,513,430,665.05)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
	(17,513,430,665.05)				
Net Cost of Operations	\$ )	\$ 0.00	\$ 0.00	\$ 0.00	\$ (17,513,430,665.05)

## Military Retirement Fund

<b>STATEMENT OF CHANGES IN NET POSITION</b> For the period ended March 31, 2007	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ (758,661,315,668.7 0)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (758,661,315,668.70 )
Net Cost of Operations	(17,513,430,665.05 )	0.00	0.00	0.00	(17,513,430,665.05)
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	<u>\$ 17,513,430,665.05</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 17,513,430,665.05</u>
Net Position End of Period	<u>\$ (741,147,885,003.6 5)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (741,147,885,003.65 )</u>

### Purpose and Authority of the Fund

The Military Retirement Fund (MRF) receives its appropriations and funds as trust and earmarked funds. The MRF uses these appropriations and funds to execute its mission and report on resource usage.

The MRF is a pension program established in fiscal year 1984 by Public Law 98-94 for the payment of annuities and pensions to retired military personnel and their survivors. The Department of Defense (DoD) Retirement Board of Actuaries calculates the amount of the contributions made to MRF.

### Financing Sources

Financing sources for MRF are provided primarily through (1) monthly Military Service contributions as a percentage of base pay; (2) annual payments from the U.S Treasury for the unfunded liability and for the concurrent receipt provisions for certain disabled retirees; and (3) interest earned on investments. These financing sources are the result of intragovernmental flows. Excess funds from the contributions are invested. These investments and associated accrued interest revenue are used to cover future liabilities of MRF.

On the consolidated Balance Sheet, Assets section, the Fund Balance with Treasury \$26.1 million represents the funds held back at the end of the month for any unexpected expenses. Next, the \$226.0 billion represents the net investments of the fund, which consist of bills, bonds, notes, overnights, and inflation-protected securities as well as interest receivable. The Accounts Receivable, Net line represents accounts receivable of \$23.3 million which includes the associated interest, penalties and fees for delinquent amounts net of an allowance for uncollectible amounts.

The Balance Sheet, Liabilities and Net Position section, contains \$967.2 billion for the actuarial military retirement benefits liability. The \$924.1 thousand amount in the Other Liabilities line consists of the death payment contingency and the custodial liability for collecting interest, penalties, and fees on behalf of the U.S. Treasury. Finally, the

\$741.1 billion in Unexpended Appropriations Cumulative Results of Operations is the net difference since inception of MRF between the revenues and expenses, interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

The Statement of Net Cost reports Program Costs of \$21.6 billion. This amount represents the total program costs, which is a combination of operating expenses, bad debt expenses, and future unfunded expenses. The Earned Revenue line of \$39.1 billion is comprised of contributions and interest revenue from investments.

The Statement of Changes in Net Position displays the Net Position Beginning of the Period of \$758.7 billion. This amount represents the net difference since inception of the activity between the revenues and expenses. The Net Cost of Operations of \$17.5 billion represents the current year net result of totaling the interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of March 31	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

**1. ENTITY AS LESSEE-  
Operating Leases**

Future Payments Due

Fiscal Year

2007	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
2012		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease  
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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Not applicable.

<b>Note 25.</b>	<b>Restatements</b>
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Not applicable.